

## LifeCare Xchange Frequently Asked Questions

Life insurance policies are one of the most valuable assets a person can own. They are also one of the most misunderstood and wasted.

The majority of people don't realize that their policy can provide a number of benefits while they are alive, and too often abandon the policy as seniors. After years of making premium payments, the owner of a life insurance policy can use their policy while still alive to help cover their retirement and long term care costs. Would you abandon your home without selling it after years of making mortgage payments? Of course not, and no one should abandon a life insurance policy after years of making premium payments either.

A life insurance policy can be exchanged while the owner is alive for the present-day value of the policy's death benefit. With this sudden realization of funds from a "dead asset", new living benefit options designed to provide retirement income or help cover long-term care expenses become possible:

Policy Xchange Options:

**LTC Benefit:** Healthcare and senior living expenses with a tax free *Long-Term Care Benefit*

- *Choose any form of care and control the monthly payments paid directly to Assisted Living, Home Care, Memory Care, Adult Daycare, and Skilled Nursing*

**Lifetime Income:** Supplement retirement funds for life with an *Immediate Income Annuity*

- *Create a protected (guaranteed?) lifetime monthly income that can be used to cover any type of retirement, healthcare or long-term care costs*

**Cash Payment:** Generate income with a *Lump-Sum Payment* much greater than cash-surrender value

- *Supplement income and assets with a lump sum cash payment that can be used without any restrictions*

**Protection:** Maintain partial paid-up policy without premium payments with a *Retained Death Benefit*

- *Continue providing death benefit protection for loved ones without any more premium payments*

Q: How are cases submitted?

A: Appointed Agents refer a policy owner lead directly to GWG Life using a simple lead referral form. GWG Life contacts the policy owner on the agent's behalf to begin the health and policy review process. There are no requirements of the agent to gather medical records.

Q: What are the age or policy type requirements?

A: Minimum age of 70 with a minimum policy face amount of \$100,000. The most common policy types are Universal Life and Term Life, but other policy types will qualify as well.

Q: What are the underwriting requirements?

A: A Policy Xchange is designed for seniors with impaired, chronic, or terminal health conditions. Often time's, applicants will be nearing or currently in need of long-term care supports and services. GWG Life will require a signed HIPAA release authorizing us to perform a tele-med interview and possibly review medical records. There are no requirements of the agent to gather medical records.

Q: How do agents get appointed?

A: Agents submit a simple Appointed Agent application that will gather basic information such as name and contact info, life insurance license number, who their BGA or IMO is, and will authorize a background search. As part of the appointment process, GWG Life will need to determine BGA or IMO affiliations to properly establish compensation hierarchies.

Q: How does the agent get compensated?

A: A Policy Xchange is a no load transaction for the policy owner. Agents receive referral compensation from GWG Life based on the face value of the policy after the Policy Xchange has closed and the rescission period has elapsed. Compensation is fixed at 1% of the total death benefit. There are additional fixed tiers of compensation for BGA and IMO hierarchy overrides.

Q: What are the licensing requirements for agents?

A: There are no additional licensing requirements for Appointed Agents. The Appointed Agent is covered by GWG Life's license and acts as a lead referral agent. GWG Life works directly with the client on the agent's behalf from the initial intake of the application, through the underwriting and review process, and presenting the Policy Xchange offer to the policy owner. Once the owner accepts, GWG Life will work directly with the policy owner to complete the Xchange transaction until policy ownership has been transferred. GWG Life keeps the agent informed weekly of progress through each step of the process.

Q: Is E&O required for agents?

A: Appointed Agents are covered at no charge by GWG Life's E&O.

Q: How long does it take to generate a quote and to enroll?

A: Once a case has been opened and a phone interview with the policy owner has been completed, it takes about 10 days to generate a preliminary quote. Depending on the health conditions and policy size and parameters, additional underwriting may be necessary to finalize the Xchange value before an offer can be made. Typical time from a case being opened until it is closed can be about 60 days.

Q: Is the Xchange value based on the cash-surrender value (CSV) remaining in the policy?

A: No, the Xchange value is based on the face value of the policy and the outcome of the medical underwriting. The Xchange value is determined by calculating the projected remaining life expectancy of the insured relative to the cost of keeping the policy in-force over that timeframe.

Q: How does the Retained Death Benefit work?

A: A policy owner can elect to keep a reduced paid-up death benefit in-force without making any more premium payments, instead of lapsing or surrendering their policy. If the policy owner's priority is to keep death benefit protection in place to cover their family or other insurable interests but no longer wants to pay premiums, the Reduced Death Benefit option would be right for them.

Q: How does the Immediate Income Annuity work?

A: A Medically Underwritten **Immediate Need Annuity** is a medically underwritten single premium immediate annuity designed to create a guaranteed monthly income stream for the life of the annuitant. The monthly income payments can be used for any purpose such as living, medical or long-term care expenses. With medical underwriting, monthly income payments from a Medically Underwritten *Immediate Need Annuity* may be larger for annuitants who are less healthy and in need of care as compared to traditional single premium immediate annuities. They can also include annual cost-of-living adjustments to the monthly payouts and purchase death benefit options as a hedge against premature death.

This financial vehicle helps create certainty for a family by providing a guaranteed lifetime stream of income payments for older, less healthy care recipients who need long term care now or in the near future. Although the income can be used for any purpose, including medical and living expenses, this annuity is designed to help offset the cost of long term care for people ages 70 and older with adverse health conditions. Because the annuity is medically underwritten, monthly payouts from this annuity may be larger for individuals who are less healthy and in need of care.

Q: How does the Long-Term Care Benefit work?

A: A **Long-Term Care Benefit Account** is an irrevocable, FDIC-insured Benefit Account that is professionally administered with payments made monthly on behalf of the individual receiving care. The entire proceeds from the policy exchange are placed into the account and then at the direction of the family, the monthly payments are made directly to their choice of care provider. If care needs change, and the family wants to change care provider and/or the monthly payment amount all they need to do is provide 30 days' notice to adjust the account instructions. This option extends the time a person would remain private pay and delays their entry onto Medicaid. It is a unique, tax free financial option to pay for care because all health conditions are accepted, and there are no wait periods, no care limitations, no costs to apply, no requirement to be terminally ill, and there are no premium payments.

In addition to being a Medicaid qualified spend-down inside the look back period, the Benefit Account is tax free because the funds are spent on care. Policy owners use their legal right to convert an in-force life insurance policy to enroll in the benefit plan, and immediately direct monthly payments to cover any form of senior care they choose: Homecare, Assisted Living, Nursing Home, Memory Care, and Hospice.

Q: How is the Long-Term Care Benefit tax free and a Medicaid qualified spend-down?

In many cases, the proceeds received from converting a life insurance policy insuring the life of a chronically or terminally ill individual into a Long-Term Care Benefit will not be subject to U.S. federal income tax. As a general rule, proceeds from the sale of a life insurance policy are subject to U.S. federal income tax; however, the Internal Revenue Code provides special exemptions for sales of life insurance policies insuring the lives of individuals who are terminally ill or chronically ill. In the case of a terminally ill insured, the proceeds from the sale of the policy will not be subject to U.S. federal income tax regardless of how the proceeds are used. And, if the insured is chronically ill, the proceeds will not be subject to U.S. federal income tax so long as they are used solely to pay for qualified long-term care services.

In order for a spend-down to be qualified, the monies must be used for health care costs. The Benefit Plan is held as an irrevocable FDIC insured Demand Deposit Trust Account and the monthly benefit is administered by a third-party. As such, there is a record that the proceeds are being used for health care costs. The Long Term Care Benefit Plan is a qualified spend-down of the fair market value of the policy asset, as the proceeds are held in the form of an irrevocable account and benefits are paid to cover the costs of care until exhausted. A partial retained death benefit is preserved over this spend-down period. Once the Benefit has been spent-down, the enrollee would be able to apply for Medicaid without the life insurance asset counting against them.

Q: How does the Lump-Sum Cash Payout work?

A: A policy owner can elect to take a lump sum payout as an Xchange option. Once the Xchange process is completed, the policy owner would receive a cash or wire transfer and can use the money without any restrictions.

Q: Can the insurance company stop the policy owner from Xchanging their policy?

A: Millions of seniors across the country needlessly abandon their life insurance policies every year. For many, they either cannot afford to pay the premiums or they plan to lapse or surrender their policies to qualify for Medicaid. What they don't realize is that they have the legal right to Xchange their policies into other living benefits. Since 1911, the U.S. Supreme Court has recognized a life insurance policy as an asset and grants the same personal property protections as someone who owns a home. An insurance company has no legal basis to interfere with the transfer of ownership of a life insurance policy.

Q: How is this different than a viatical or traditional life settlement?

A: The primary differences between a Policy Xchange and a viatical or settlement are that in an Xchange their agent refers the policy owner directly to the institutional buyer without needing to go through a broker. By going to the buyer direct, the policy owner eliminates the "middle-man" and the need to pay costly brokerage commissions and fees. The agent is not required to obtain any additional licenses or training to work with a broker because they refer the case directly to the licensed buyer of the policy known as a "Secondary Market Provider".

Q: Who is GWG Life?

GWG Holdings, Inc. (Nasdaq:GWGH) the parent company of GWG Life, is a financial services company committed to transforming the life insurance industry through innovative products and services. Already a recognized disruptor in the life insurance secondary market, GWG Life introduced the LifeCare Xchange in 2017 to offer seniors alternative uses for life insurance policies to address the costs of retirement and long-term care. Since 2006, GWG Life has purchased over \$2.4 billion in life insurance policy benefits and paid seniors more than \$400 million for their life insurance (compared to \$21 million of cash surrender value) before lapse or surrender.

**Fast Facts:**

- 10,000 Baby Boomers turn 65 every day and over 70% of them will need to cover the costs of long-term care for multiple years as they age.
- The vast majority of Americans do not understand the costs of long-term care, and over 75% of people will exhaust all of their resources paying for care within the first year.
- 88% of life policies are either lapsed or surrendered
- There are less than 8 million in-force long-term care insurance policies in the United States compared to over 150 million life insurance policies.
- On an annual basis as much as \$185B of in-force death benefit is owned by seniors who could lapse or surrender their policy without realizing it has significant Xchange value
- Over the last decade GWG Life has Xchanged over \$2 billion of death benefit for \$400 million of value to the policy owners—as opposed to the \$21 million of cumulative cash value those policies contained.